



RD's Multifamily Physical Inspection Pilot Program



USDA Rural Development
U.S. DEPARTMENT OF AGRICULTURE

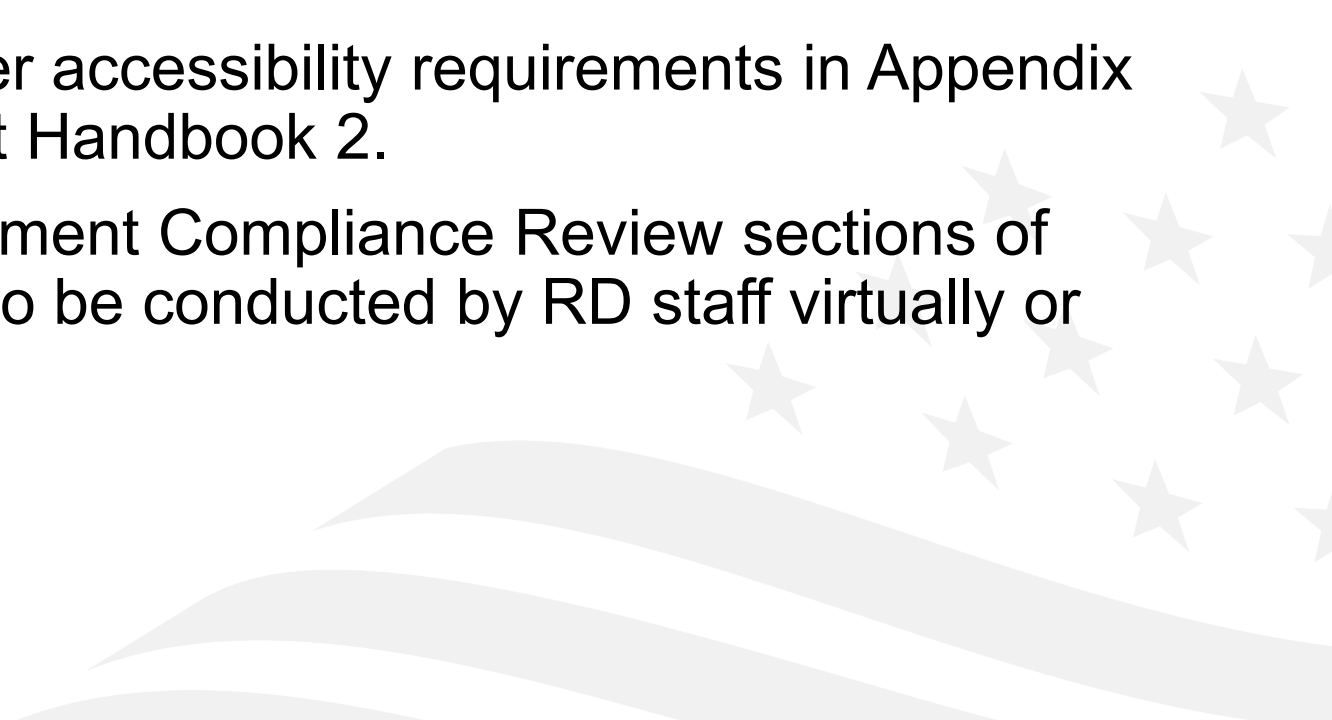
New Physical Inspection Protocol – Why Change??

AMD Wanted to Address Two Pressing Issues:

- Catch Up on Backlog from Pandemic
- Provide Additional Staff Support.



Inspection Requirements We Were Looking For

- Needed the inspection to be conducted according to the RD regulation at 7 CFR 3560.103.
 - Needed a form similar to the one used in the past but with more information.
 - Needed inspection process to cover accessibility requirements in Appendix 5 of Multifamily Asset Management Handbook 2.
 - The tenant file review and Management Compliance Review sections of the Supervisory Visit will continue to be conducted by RD staff virtually or in person.
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Overview of the Multifamily Physical Inspection Pilot Program (MPIPP)

- The protocol is based on professionally trained inspectors conducting inspections using the Mortgage Banker's Association (MBA) Inspection form 3.03.
- In October 2022, RD awarded the contract to perform the inspections and evaluate the protocol to Tribal1 and its subcontractor Building Inspection Services, Inc. (BISCO)
- Between December 2022 and August 2023, Tribal1 and (BISCO) will conduct 1,075 physical inspections and assess whether the Agency's proposed protocol produces accurate, objective, and consistent results at federally assisted multifamily RD projects in rural areas.

Overview of the Multifamily Physical Inspection Pilot Program (MPIPP)

- The new protocol has a proven track record - MBA Form 3.03 is already in widespread use throughout the industry by multifamily mortgage lenders and the GSEs; Fannie Mae and Freddie Mac.
- By Inspecting a sample of 1,075 projects, RD can be 95% confident that that we are capturing a good representation of our portfolio overall.
- Form 3.03 allows an inspector to choose between two rating standards, an MBA standard and the Fannie Mae standard, to rate the overall physical condition of a property. RD will test the Fannie Mae rating standard.

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- The MBA Form 3.03 can be found at : https://www.mba.org/docs/default-source/cmf-policy/cmf_pol_mba_standard_inspection_form.xlsm?sfvrsn=808eab6c_1
- The new assessment form provides:
 - An overall rating of the current physical condition and maintenance practices at each property;
 - An evaluation of past and current trends in the condition and maintenance practices at the property,
 - A very rough estimate of how much it will cost to repair any deficiencies/violations that need immediate attention.

Overview of the Multifamily Physical Inspection Pilot Program (MPIPP)

- New protocol requires the inspector to inspect the same number of occupied and vacant units RD inspects in a Supervisory Visit (SV).
- Inspectors will continue to assess borrower compliance with the physical accessibility requirements including required signage, etc.
- Inspections are scheduled with at least 28-days notice unless all parties agree to schedule an inspection sooner than 28-days.
- The 1-5 rankings are primarily for internal use to help staff organize workload and to determine best use of preservation resources.
- Unlike REAC scores they do not affect how often a property is inspected.

Number and Percentage of Inspections by Rank

Inspection Rank	Number of properties	Percentage of Total
1	22	2.2
2	290	28.3
3	650	63.5
4	45	4.5
5	4	.4
Total	1011	100.00

Descriptive Statistics

Variables	N	Range	Min.	Max.	Mean	Std. Deviation	Variation
LS	1011	21	0	21	4.39	3.581	12.82
DM	1011	50	0	50	10.60	7.457	55.603
Est. Cost	1011	35,7647	0	35,7647	9,232.71	26,208.50	686,885.40
Valid N	1011						

- Life Safety mean is 4.39 and the 95% CI is 4.61 to 4.16
- Deferred Maintenance mean is 10.60 and the 95% CI is 11.06 and 10.13
- Est. Cost mean is \$9,323.71 and the 95% CI is \$10,848.26 to 7,617.16

Inspections Completed as of June 23rd

Region	Approved to Date	% Complete	# Remaining	Total
Midwest	295	98.3	5	300
Northeast	189	94.5	11	200
South	458	96.4	17	475
West	93	93.0	7	100
Total	1035		40	1075

What Happens After The Pilot?

- Draft Evaluation is due 2nd week of July and the final evaluation due in August
 - We are moving forward with a procurement package for a 3 to 5-year contract provided we receive funding and the amount.
 - Will provide owner/agent training on the inspection changes by late summer/early fall.
 - Begin work on any handbook changes needed.
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